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November 4, 1988

MEMORANDUM

TO: Rent Stabilization Board Commissioners

FROM: Bay Area Economics

SUBJ: Initial Findings Regarding Historically Low Rents

INTRODUCTION

This memo is the second of two presenting the initial findings of a two part study undertaken by Bay Area Economics in May 1988. The first memo included the initial set of findings from a survey of households living in rent controlled units in Berkeley. This memo addresses the issue of historically low rents. These are rents that were below market rate in 1980, and have remained low, since under Berkeley's Rent Stabilization Ordinance, all rent increases are tied to 1980 as the base year.

One of the objectives of this study was to develop an objective and quantifiable definition of historically low rent. A second objective was to determine the extent of the historically low rent problem. By establishing a definition or definitions, and applying them to the Certified Rents Database, it becomes possible to determine approximately how many units in Berkeley potentially have historically low rents. Three alternative methods for defining historically low rents were presented to the Rent Stabilization Board Commissioners in July. At that time, the Commissioners directed Bay Area Economics (BAE) to use two of these definitions in conducting further analyses of the Certified Rents Data Base. The first of the two methods defined the lowest five percent of rents for all units by unit size (defined by the number of bedrooms), and Submarket Area (see discussion of Submarket Areas below) as historically low. The second method was based on developing a break-even model of revenues and costs to maintain and operate a unit including payment of debt service. This method assumes that property owners should be able to cover all expenses, including debt service, for a unit with the rents collected from that unit. In particular, rents should have been covering debt service in 1980, since up to that time rent control was not a factor in a landlord's setting of rents. The problem of historically low rents may arise when, for whatever reason, a property owner was not charging rents which would cover both operating expenses and debt service at the time rent control went into effect. Since debt service is generally not treated as an expense by the Rent Stabilization Ordinance, these owners are, in effect, permanently "trapped" with rents which cannot cover both their operating expenses and debt service. Section 1276(A) of the Ordinance sets a level of debt service, based on 1979 mortgage rates and down payments, for which property owners who purchased their properties just before

or as rent control went into effect could increase rents to cover this increased debt service if the rents in 1979 did not already reflect this increased debt service. In effect, this established a maximum permissible level of debt service which could be considered in allowing IRAs. BAE has used this debt-service level in creating a threshold break-even rent.

A third objective of this study was to conduct five in-depth case studies of properties with historically low rents. These case studies were intended to offer detailed insight into the cost of maintaining and operating historically low rent units.

Finally, the tenants in the case study buildings were to be interviewed to formulate a demographic profile of these households, with particular emphasis on establishing rent burden. This information was intended to provide the Rent Board Commissioners with some limited insight into the possible impact of rent increases on tenants living in historically low rent units. Such increases have been frequently discussed as one possible way to remedy the historically low rent situation.

In reviewing this memo, there are two important points to consider. First, all of the analyses, except for the case studies, are based on 1980 rents from the Certified Rents Database. Although the database generally includes rents for each unit for all years since 1980, the 1980 data is the most reliable. The assumption is that if a unit had an historically low rent in 1980, and it has not received an individual rent adjustment (IRA), it will also have an historically low rent in 1988.

The second important point is that the threshold rents are not intended as absolute definitions of historically low rents. They are merely a benchmark indicating the level at which rents have a higher potential to be historically low. The only way to develop an estimate of historically low rent units was to formulate a threshold. However, BAE is not suggesting that any policy adopted to remedy historically low rents should be implemented across the board for all units falling at or below the thresholds. The case studies do show that there is tremendous variability among units with potential historically low rents, and that an effective adjustment procedure must recognize this variability.

This memo includes four major sections. The first section defines the Submarket Areas and provides background information about the characteristics of units and buildings in the rent controlled housing stock. It also shows average rents and the distribution of rents in 1980 by unit size and Submarket Area. This section provides a basis of comparison between the characteristics of all rent controlled housing stock in Berkeley relative to the stock of potentially historically low rent units. The second section shows the number of units falling under each definition of historically low rents as well as includes a discussion of how the units are distributed among buildings and Submarket Areas. The third section includes the discussion of the five case studies, and the final section profiles the tenants living in historically low rent units.

DESCRIPTION OF 1980 CERTIFIED RENTS DATABASE

Definition of Submarket Areas. One major determinant of market rent level for a rental unit is location. In order to assess the impact of location, the first step taken in this study was to divide the city of Berkeley into five housing submarket areas for rental housing (see Figure 1). Census tracts were used in defining these areas in order to allow comparability with Census data from 1970 and 1980. With one exception, these submarket areas comprise contiguous census tracts with similar median rents and demographic characteristics. The one exception is Submarket Area 1, where Census Tract 4238 was included because it is more similar to the other tracts in Submarket Area 1 than to its contiguous tracts.

Submarket Area 1 primarily consists of the North Berkeley hills, but also includes one tract in southeast Berkeley with similar characteristics. Central Berkeley north of Dwight Way comprises Submarket Area 2. Submarket Area 3 includes the neighborhoods near the University. Submarket Area 4 is the area generally thought of as West Berkeley: all of the city west of San Pablo Avenue. Submarket Area 5 includes the areas typically designated as South Berkeley.

Characteristics of Rent-Controlled Housing Units in Berkeley. The following analyses were conducted on a database consisting of all the units registered as rent-controlled with the Rent Stabilization Board. This database includes information on type of unit (house or apartment), number of bedrooms per unit, legal maximum rent for each year since 1980, whether or not the contract rent includes various utilities and amenities (such as parking and furniture), whether or not an individual rent adjustment has ever been granted,and other information pertinent to registration of the unit. The information on utilities and amenities was found to be somewhat unreliable, so contract rent rather than gross rent is used in this analysis for comparison purposes. Each entry also includes an address and the county assessor's property account number; from these data the units were sorted into census tracts and submarket areas. From this database it was possible to develop information regarding general characteristics of the rent-controlled housing stock, including the distribution of unit types as classified by number of bedrooms, size of building, and rent levels, and the distribution of building types by number of units in the building. This information was ascertained for Submarket Areas and the City of Berkeley as a whole. It was developed in order to provide background information regarding rent-controlled housing in Berkeley for both the historically low rent study and the tenants survey.

Table 1 gives the breakdown of the number of units by unit type and Submarket Area. The total number of units listed is approximately 20,000, with the vast majority (95 percent) of the rent-controlled units being apartments. Almost half of all units (and just over half the apartments) are located in Submarket Area 3, the area around the University. Submarket Area 4, the West Berkeley area, has the smallest number of total rental units, consistent with its commercial/industrial land-use pattern. The next lowest count is in Submarket Area 3. Submarket Areas 2 and 5 each contain slightly less than one-fifth of the total rent-controlled units. There are also significant differences in

FIGURE 1: SUBMARKET AREA MAP

Berkeley Historically Low Rent Study

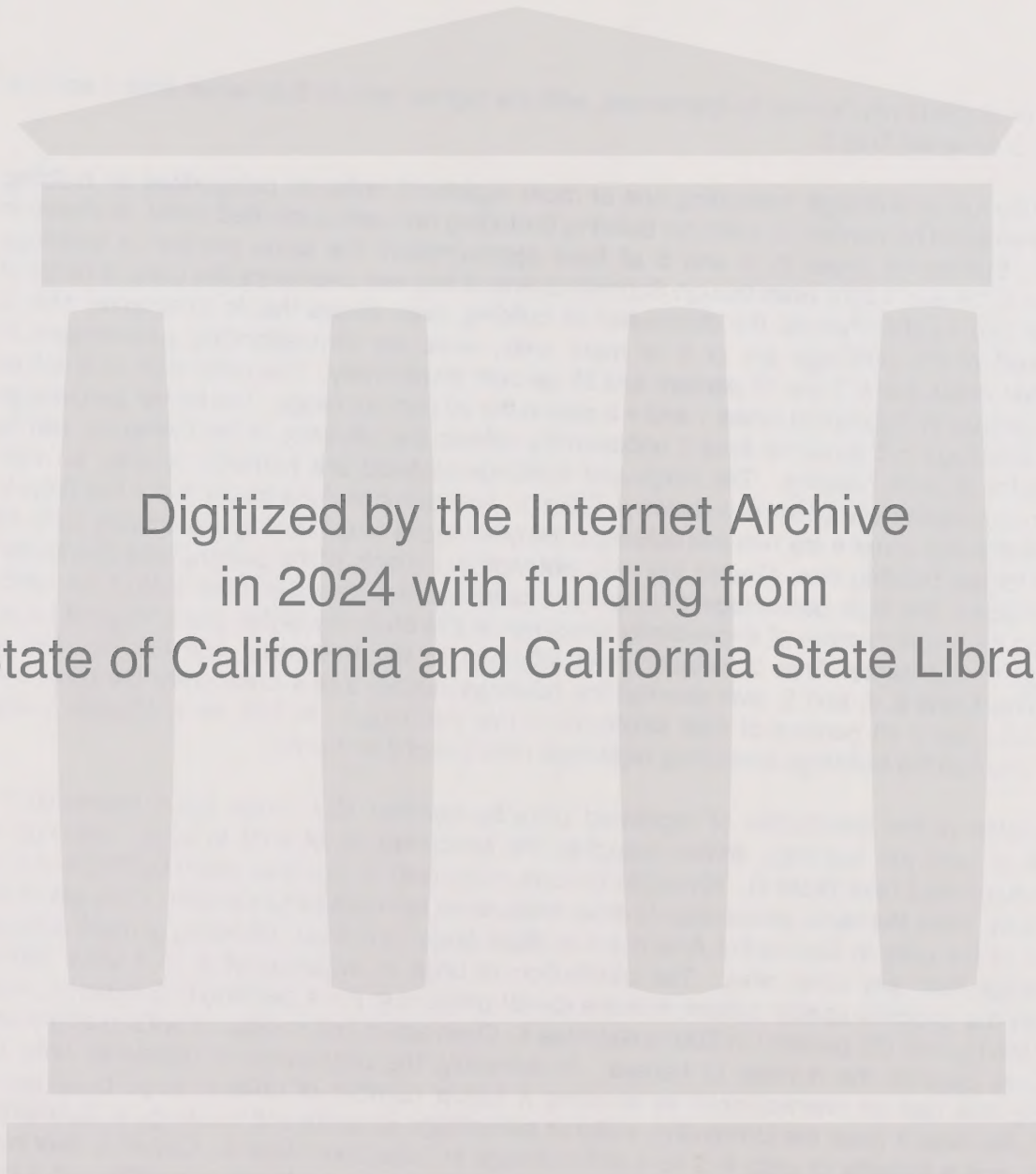
Source: Bay Area Economics

the ratio of single-family houses to apartments, with the highest ratio in Submarket Area 1 and the lowest in Submarket Area 3.

The distribution of buildings containing one or more registered units, as categorized by building size as measured by number of units per building (including non-rent-controlled units), is shown in Table 2. Submarket Areas 2, 3, and 5 all have approximately the same number of buildings (between 1,100 and 1,300) even though Submarket Area 3 has well over twice the units of either of the other two neighborhoods; the distribution of building sizes shows that in Submarket Area 3 almost half of the buildings are of 5 or more units, while the corresponding percentages in Submarket Areas 2 and 5 are 18 percent and 25 percent respectively. The proportion of 5 unit or larger buildings in Submarket Areas 1 and 4 is also in the 20 percent range. The higher percentage of large buildings in Submarket Area 3 undoubtedly reflects the influence of the University and its demand for student housing. The single-unit buildings citywide are primarily houses, so their distribution parallels that of houses shown in Table 1. Approximately one-fourth of the buildings in Submarket Areas 2 and 4 are two-unit buildings; the other areas range from approximately 13 to 18 percent for this building size. Overall, the most noteworthy aspects of the building size distribution are as follows: the high percentage of single-unit buildings in Submarket Area 1 (43.1 percent), reflecting the larger number of single-family structures in this area; the higher percentage of larger buildings in Submarket Area 3, reflecting the influence of the University; and the fact that in Submarket Areas 2, 4, and 5, over one-half the buildings contain 2 to 4 units, while the other two areas have about 40 percent of their structures in this size range. In fact, on a citywide basis, almost one-half the buildings containing registered units are of 2 to 4 units.

Examination of the distribution of registered units by building size (once again measured by number of units per building), shows especially the concentration of units in larger buildings in Submarket Area 3 (see Table 3). Almost 85 percent of the units in that area are in buildings of 5 or more units, while the same percentage in other areas does not exceed 55 percent. Only about 35 percent of the units in Submarket Area 4 are in these larger buildings, reflecting a much smaller percentage than any other area. The distribution of units in buildings of 2 to 4 units shows basically the opposite spatial pattern, with the lowest proportion (14.4 percent) in Submarket Area 3, and the highest (55 percent) in Submarket Area 4. Once again, the number of units in single-unit structures parallels the number of houses. In summary, the distribution of registered units by building size can be characterized as showing a higher number of units in large buildings in Submarket Area 3 (near the University), a higher percentage of single-unit buildings in Submarket Area 1, and a majority of units in 2 to 4 unit buildings in Submarket Area 4. Citywide, over two-thirds of the units are in buildings of 5 or more units, with about one-fourth in buildings of 2 to 4 units, and less than 6 percent in one-unit structures. So while the majority of buildings containing rental units citywide are of small size, the majority of the units themselves are in larger buildings.

Since single-family units represent such a small portion of the rent-controlled housing stock, and since the variation among these houses is so great in terms of size, amenities, and rent, further



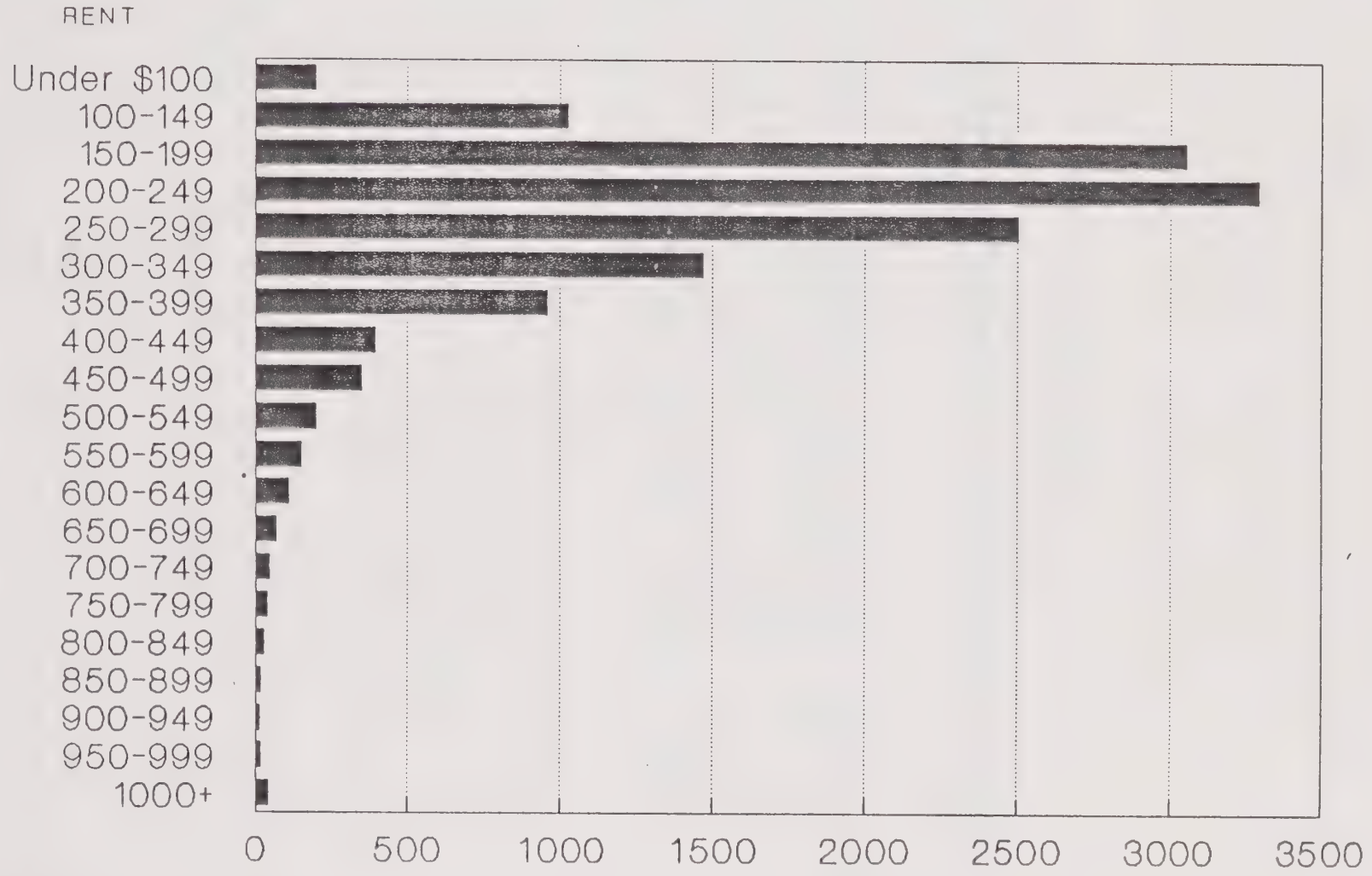
analysis has been restricted to apartments only. Also, any breakdown of houses into unit type by submarket area gives subtotals too small for useful analysis and comparison.

Units in apartments are broken down by bedroom size in Table 4. Almost half the apartments are one-bedroom units, with 2-bedroom units making up another one-third of the total. The mix of apartment types is similar in all submarket areas, with the exception of submarket area 3, where there are more studios and fewer two- and three-bedroom units proportionately than in the other areas. A large number of apartments are unclassified due to missing information in the database concerning number of bedrooms.

Distribution of 1980 Certified Rents. Table 5 shows the mean certified rents in 1980 by apartment size and Submarket Area for rent-controlled units in Berkeley. 1980 rents are used because that is the first year under the current ordinance, and thus the year in which any possible historically low rents were established. Mean rather than median rents are used to give comparability to available 1980 census data; it was not possible to derive median census rents by Submarket Area. Submarket Areas 4 and 5, West and South Berkeley, generally had the lowest rents, with Submarket Areas 2 and 3 following in increasing order. Submarket Area 1 (primarily North Berkeley) had the highest mean rent levels. In fact, the mean rent for all units in Submarket Area 1, $312, was almost $100 higher than the mean rent of $214 for Submarket Area 4. As unit size increased above one bedroom, the variation in mean rents between subareas increased; while the studio and one bedroom unit mean rents by subarea varied within a range of approximately $50, the variation increased to $100 for two bedroom units, and was larger still for units of three or more bedrooms. This divergence in mean rents as unit size increased was probably due in part to the wider range of unit types and amenities available for larger units. The larger units may include luxury apartments, and other units which more closely resemble houses (and have their wider range of amenities). In some areas, the presence of these large units with extremely high rents pulled up the overall mean.

Figure 2 shows the distribution of 1980 certified rents for all rent-controlled apartment units in Berkeley. The distribution follows a normal statistical curve, with the mean at $259. This normal distribution pattern is interesting because it shows that there is no significant cluster of units at the lower end of the curve which can easily be defined as the historically low rent group of units. Further analysis of these patterns by unit size and Submarket Area shows little divergence from this pattern of normal distributions, except for units of four or more bedrooms, which represent a very small percentage of the total stock.

Figure 2: Distribution of 1980 Certified Apartment Rents



Sources:
Berkeley Rent Stabilization Board,
Bay Area Economics

EXTENT OF THE HISTORICALLY LOW RENT PROBLEM

Alternative methodologies for defining historically low rents were presented in the BAE memo of July 13 to the Rent Board; thus, the rationale for these methodologies will only be discussed briefly here. These methodologies were developed only as a means of defining the potential extent of the historically low rent problem.

In July, the Rent Board Commissioners directed BAE to analyze the historically low rent situation using two methods for defining historically low rents. The primary method selected defined historically low rents in terms of break-even rents. Basically, this method defines a minimum rent needed to meet operating expenses and debt service. A more detailed discussion of how these rents are derived will be included in the final report. The rents derived through this technique are presented in Table 6. these rents are calculated for 1980, since the basic assumption of historically low rents is that property owners were "locked into" below-market rates at the inception of rent control in Berkeley. Because break-even rents are based on operating expenses, and these expenses are generally not spatially variable within a city, they are calculated for various unit sizes but not by Submarket Area.

The secondary method for defining historically low rents identifies those units which have rents which lie in the lowest 5 percent of 1980 certified rents by unit size and Submarket Area. These rents are presented in Table 7. Since the distribution of 1980 rents follows a fairly normal distribution, there is no obvious cut-off point below which there is a clustering of rents; therefore, the lowest 5 percent of units was selected based on the best professional judgement of the consultant team. Due to the limitations of this method, it was to be used only as a backup to the break-even method, in case the use of that method proved unfeasible. Unlike the break-even method, this method allows for variation between Submarket Areas for the cut-off rent selected.

Table 8 shows the numbers and percentages of units below the break-even threshold broken down by Submarket Area and number of bedrooms; Table 9 gives the same breakdown using the 5 percent threshold method. On a citywide level, use of the break-even rent method identifies 1,950 units, or approximately 10 percent units, of the units as having historically low rents. The distribution by Submarket Area does not follow the overall distribution of units as shown in Table 5; Submarket Area 5, South Berkeley has the highest number of units below the break-even threshold, with 714, followed in descending order by Submarket Area 2 (498 units), Submarket Area 3 (424 units), Submarket Area 4 (231 units), and Submarket Area 1 (83 units). When historically low rent units are taken as a percentage of total units in the area, a somewhat different pattern emerges. Submarket Area 4 has almost 30 percent of its units below the threshold, Submarket Area 5 has just over 20 percent of its units below, Submarket Area 2 has about 14 percent below, and Submarket Areas 1 and 3 have approximately 5 percent below. Table 10 shows the distribution of units with below break-even rents by size of building. The distribution within Submarket Areas somewhat follows the same distribution for all certified units (see Table 5), the major exception being the very small number of apartments in one unit structures being below

the threshold. This is due to the exclusion of single-family units from the historically low rents analysis.

It should be noted that both of the above distributions probably underestimate the total count of units below the rent threshold. Out of a total of just over 19,000 registered apartment units in the database, the data regarding number of bedrooms and 1980 certified rent, which are needed to determine whether or not a given unit falls below the threshold, are only available for approximately 14,000 units. Units which have had IRAs represented a significant portion of the units with missing data; if it can be assumed that these IRAs may have helped raise rents for some units which were below the break-even threshold, the underestimation of the number of historically low rent units may be somewhat lessened.

Table 11 shows the distribution of buildings with one or more historically low rent unit by building size. The distribution shows a somewhat higher concentration of these units in large buildings than the distribution of all buildings containing rent-controlled unit by building size (see Table 2 for the overall distribution). This may in part be due to the presence of manager-occupied units in these buildings with lower contract rents. Once again, the exclusion of single-family units leads to a lower percentage of one-unit buildings.

In order to ascertain the total impact of historically low rents on owners of specific properties, the distribution of buildings by the percentage of units in the building below threshold rent (Table 12) has been determined. In general, lower percentages of historically low rent units per building should represent less of an adverse impact on the property owner than a higher percentage of low-rent units per building. Examination of the distribution of buildings by percentage of historically low rent units in the building shows wide variation between Submarket Areas in the proportion of buildings with higher percentages of low-rent units. In both Submarket Areas 1 and 3, of the buildings containing at least one low-rent unit, over half have less than 50 percent total units below the threshold rent. In Submarket Areas 2, 4, and 5, buildings in which historically low rents comprise the majority of the units are over two-thirds of the total of buildings with historically low rent units. In other words, these buildings were more likely to be subject to financial difficulties as a result of historically low rents. This also suggests that the impact on property owners with historically low rent units in these areas is generally greater than in the other two areas. Also, the variation among Submarket Areas in the distribution of buildings with historically low rent units parallels the variation among Submarket Areas in the distribution of units with historically low rents.

In summary, the problem of historically low rents is concentrated, in terms of low-rent units and buildings with high percentages of low-rent units, in Submarket Areas 2, 4, and 5, representing Central, West, and South Berkeley respectively. Given the overall distribution of rents in Berkeley, and the nature of the neighborhoods these Submarket Areas represent, this is not unexpected. These areas, then, have the most "typical" historically low-rent buildings, and are the areas best suited for the selection of representative case studies.

HISTORICALLY LOW RENT CASE STUDIES

As part of the process of defining the nature and extent of the historically low rent issue, BAE conducted five in-depth case studies of buildings with historically low rents. These properties were selected through a three step process. First, all units in the Certified Rents Database with 1980 rents falling at or below the threshold rents for both the break even and the lowest 5 percent method were identified. Then, the units were sorted into buildings and evaluated to determine the percentage of units with historically low rents. Those buildings with 100 percent of the units falling below the threshold for either definition of historically low rents formed an initial pool from which BAE selected possible candidates for case studies. Owners were contacted to determine if they were willing to participate in the study. The final five buildings were selected to cover a range of situations. Sample buildings varied by building size and location within Submarket Areas and included buildings with owner occupied units.

The case study approach focused on both owners and tenants. Initial interviews concentrated on building owners' concerns. The owners were asked a series of questions about their properties, including detailed maintenance and operating costs and procedures, rents, capital improvements, financing, and experiences with the Rent Board. These data were then analyzed by constructing three sets of pro formas. One set reflects only those expenses calculated in the AGA process, but excludes any accounting of items identified in the rent control ordinance as "capital improvements." The purpose of constructing this set is to compare income-to-expense ratios in the cases with guidelines used for the AGA process. The second set adjusts the expense ratios to reflect the economic costs of these "capital improvements" amortized over time in accordance with IRA guidelines. This set approximates, albeit conservatively (since current expenditures are amortized over time without taking into account the difference between the present versus the future value of the cost of the improvement), the actual net income to the owner before debt service. A third set of calculations was made to determine the economic return after debt service payments to the owner in order to evaluate the performance of the investment for the owner.

The full results of the case studies are included below. While these results provide insights into the situation facing both property owners and occupants of historically low rent units, they are not statistically significant. Therefore, these results cannot be used to generalize about all units with historically low rents. Instead, they offer the rent board a sketch of potential trends to explore in future policy reviews.

Building Characteristics. The five case study buildings represent a variety of sizes ranging from two to eight units. Although the owners were not always sure about when their buildings had been built, visual inspection indicated that all buildings were likely constructed prior to 1960. The buildings were all of one or two story construction and none had elevators. Four of the five buildings had off-street parking, but no additional fees were charged for parking. One of the buildings was located in Submarket Area 2, one was located in Submarket Area 4, and three were in Submarket Area 5.

Rents. By definition, all of the case study buildings had units with historically low rents. The five buildings had a total of 25 units, of which two were owner occupied, two were occupied by a relative of the owner, and three were occupied by tenants receiving Section 8 subsidies. The 18 units covered by rent control all had historically low rents ranging from 46 to 68 percent of the average 1980 rent for similar units (after adjusting for number of bedrooms and location by Submarket Area.

Building Maintenance Procedures. All five owners said that they do routine maintenance tasks including mowing the lawn, sweeping, taking out the garbage, and changing exterior light bulbs. The frequency of these activities ranged from weekly to monthly. Two of the owners contract with individuals or services to undertake monthly landscaping maintenance; the remaining owners complete the work themselves.

In general, building maintenance was completed by the owner; self labor was the dominant method of providing building maintenance. While the Rent Control Ordinance recognizes the value of self employed activities, the following analysis includes only an allowance for management activities (calculated at 6 percent of gross rental income), but not for self-labor required to execute maintenance tasks. The expense ratios presented are thus conservative ratios; credit for owner operation and maintenance labor would increase these ratios.

Interior maintenance work was not undertaken on a routine basis. Several owners said they used to paint their units regularly, but have stopped doing this since rent control was enacted. Others disclosed they only paint upon tenant request, providing materials but no labor. None reported undertaking preventative maintenance on unit interiors; interior improvements were undertaken on an as needed basis when problems arose.

Building Operation and Maintenance Costs. Building operating maintenance costs were determined by examining the operating experience of owners for 1987. Information on standard operating items including property taxes, insurance, utilities, licenses and fees, etc was obtained; whenever possible, these costs were verified by 1987 income tax returns. All five owners paid property taxes, insurance, registration fees, and garbage. Other expenses varied depending on the level of charges passed through to tenants, whether or not maintenance functions were performed by contract labor, and the level and types of maintenance activities performed by the owner. In several cases, owners reported non-recurring expenses as part of their total expenses.

While the expensing of some of these activities is consistent with general real estate practice, Section 1265(C) of the Rent Stabilization Ordinance requires that all non-recurring expenses be amortized over a specified period of time. Therefore, in calculating the total annual expenses for owners who performed maintenance or repairs in excess of $100 per unit, the cost of these activities was amortized over the appropriate period (as identified in Appendix A of the ordinance).

Adjusted total operating costs were calculated for each building and two ratios of expenses to total income were derived. The first set of ratios only shows those expenses considered in the AGA process. This process only considers increases in operating costs to the unit excluding non-reoccurring maintenance costs. The annual general adjustment process in Berkeley is based on an operating ratio of approximately 45 percent of total rental income in 1987. The five case study buildings had AGA adjusted expense to income ratios ranging from 39 to 60 percent. The average operating expense ratios were in excess of 50 percent.

The second method for calculating expense ratios adds in the cost of amortized capital improvements into the ratio. This shows how the ratios are affected by adding in these amortized costs relative to the ratios assumed in the AGA process. When "capital improvements" were included within the operating ratio calculation, the average ratio increased approximately 6 percent, with the average ratio reaching 56 percent of gross rental income.

Again, these ratios are both conservative. If credit for self labor is included, the operating ratios would increase.

Moreover, in all cases, owners reported deferring some property maintenance. Although owners were generally controlling expense ratio levels by changing maintenance and improvement timing, the decision may have long term repercussions for the housing stock. For example, the types of expenses postponed by owners included caulking and weatherization, painting (both interior and exterior) and replacing and/or preventative maintenance on unit fixtures. These expenses are essential investments to the long term viability of the housing stock. In the short run, the reduction of maintenance and replacement could increase profitability. Over the long run, these activities must be conducted to ensure that the unit will remain in the housing stock for the full life of the building. Since one objective of the Rent Control Ordinance seeks to maintain and improve the existing housing stock (Section 2a(2)), higher operating ratios in these units may, in the long run, aggravate efforts to maintain the conditions of the rental stock.

In summary, the operating expenses for the buildings examined varied; while there were instances where the expense ratios were in line with the ratios assumed in the AGA process, two of the buildings had ratios significantly above these levels. In addition, when owners were credited for self employed labor and capital improvement adjustments, these ratios increased significantly. Finally, owners reported varying levels of maintenance/improvement deferrals, highlighting potential long term repercussions for the viability of the housing stock.

Net Operating Income. All five buildings had a positive net operating income (NOI). At the very least, it appears that the buildings do generate sufficient revenue to cover operating and maintenance costs. However, as indicated above, these NOIs appear to reflect some amount of deferred maintenance or improvements, and include no credit for owner maintenance labor. In one instance, an owner is considering removing a housing unit from the market, since the owner believes that the cost of making the unit habitable exceeds the economic rent for the unit. Although this owner has applied for an Individual Rent Adjustment for the unit which is currently pending appeal, he is concerned that the increase permitted by the Rent Board may still be insufficient to cover the actual cost of the renovation. If he is dissatisfied with the increase, he says he will take the unit off the market.

Debt Service. Although payment of debt service is not considered an expense under Berkeley's Rent Stabilization Ordinance, in real estate finance it is standard to measure a building's financial performance based on the ability of rents to cover both expenses and debt service. Therefore, property owners were asked about financing for their property and a "modified before tax cash flow" was calculated for each building. A before tax cash flow (BTCF) was computed by subtracting debt service from NOI adjusted for capital improvement allowances. Four of the five buildings had financing. Three of the five buildings had been purchased prior to 1970 and two since 1980. Not surprisingly, the buildings purchased prior to 1970 had very low debt service relative to those purchased after 1980; both buildings purchased after 1980 showed negative cash flow, indicating that rents were not sufficient to cover the full cost of operating and financing the building.

Because financing generally reflects the purchase price of a building, the sale price for these two units was analyzed. The buildings were purchased in 1985 and 1986 respectively. The building, purchased in 1985 for approximately $71,000, had 6 units, a per unit price of $11,833. The building purchased in 1986 had two units and was purchase for about $64,000 or $32,000 per unit. These per unit costs appear to be well below the depreciated replacement costs of the buildings. If this is indeed the case, the economic incentives to keep the unit in the rental stock are weak; at some point there will be increasing pressure to replace the rental unit with a more profitable use i.e. sell the building to owner occupants or convert it to a non-residential use. While the latter example is less likely given land use restrictions in Berkeley, anecdotal evidence suggests that the former is already occurring with some regularity. In either case, the unit is removed from the rental stock.

Furthermore, while it is not possible to generalize from the limited cases, the significant difference in per unit price between the two buildings may indicate that despite rent control, there are still some strong market forces at work in Berkeley. In theory, a two unit building could be considered more valuable because one unit can be owner occupied, bidding up small building prices. Moreover, smaller buildings are more easily sold to partners wishing to occupy both units as

owners, families who convert the two units into one, or owners with relatives who then occupy the second unit, thereby removing both units from the rent controlled stock.

Rate of Return. According to Rent Board operating procedures, the rate of return for all five buildings would be calculated by dividing NOI by the original purchase price of the building. In standard real estate finance practice this is equivalent to a rate of return on total capital (ROR) (focusing on the productivity of the total capital invested, including both debt and equity capital[1]). For an unleveraged building (all equity purchase), this reflects the rate of return on equity investment. However, if the property is purchased with debt and equity capital, the return to the owner will be dependent on debt funding costs. If the interest cost on debt exceeds the ROR, the return on equity investment will be less than the ROR.

Assuming an all equity purchase, the rates of return on equity for the case studies varied significantly, ranging from 3 to 22 percent excluding adjustment for capital improvements, and 2 to 18 percent including allowances for declines in capital improvements. Two of the buildings had returns of less than six percent and were thus not profitable in comparison to other investment options such as stocks and bonds. However, three buildings had returns ranging from 15 to 20 percent annually.

Economic theory indicates that the rate of return from alternative investments should, over the long run, be consistent with the relative risk inherent in the investment vehicle. Due to a variety of factors (fixed location, incremental cash flow streams, temporal submarket variations, etc.), real estate risk has been considered relatively high . Average economic returns for real estate have thus been greater than for "safer" investment alternatives (including most debt instruments, blue chip stocks, etc.). In two of the buildings examined, pretax returns were below the rate of return associated with " risk free" investments (treasury notes, short term commercial paper, etc.), and thus had economic returns well below that indicated by theory. But the picture is mixed; given maintenance and improvement levels, three owners were operating with returns consistent with economic theory. In general, long term owners were achieving returns significantly above more recent owners.

The preceding analysis focused on pretax returns. In prior years, tax policies significantly affected real estate returns. However, the Tax Reform Act of 1986 significantly affected the tax shelter available from real estate. Passive loss limitations (losses and credits limited to no more than $25,000 of non-positive income), reductions in tax brackets, and related changes significantly complicate the calculation of after tax returns. Income levels, ownership patterns, and the nature of income earned all heavily influence the level of tax shelter available from rental property.

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1 See Pyhrr, Stephen A. and Cooper, James R. Real Estate Investment: Strategy, Analysis, Decisions. New York: John Wiley and Sons, 1982, page 253-256.

Preliminary calculations of after tax returns revealed that the after tax ROR for the buildings varied; the buildings with the lowest pretax RORs increased their after tax RORs by approximately 2-3 percent (i.e. ROR including capital allowances increased from 5 percent to 8 percent and from 2 percent to 5 percent). Moreover, the after tax returns for buildings with high pretax returns decreased slightly due to lower depreciation.

Capital Improvements. As was discussed above, Section 1265 of the Rent Stabilization ordinance essentially defines any non-reoccurring maintenance activity costing more than $100 per unit, or any major improvement, as a capital improvement. The ordinance specifies that any property owner making (or planning to make) a capital improvement can petition for an individual rent adjustment (IRA), whereby rents can be legally increased to cover the cost of the improvement over a predetermined amortization period.

The five case study property owners were asked to list any capital improvements they had made to their building on a year-by-year basis since 1980. Four of the five owners had made capital improvements ranging from exterior painting and reroofing to hot water heaters and other fixture replacement. Two of the owners had applied for IRAs to cover, among other things, the amortized cost of these improvements. However, at the time these owners were interviewed (Fall of 1988) none had completed the IRA process. The other three owners said they had no interest in applying for an IRA because they did not want to undertake the paper work. This reluctance to apply for an IRA is discussed in more detail below.

Although all of the owners had made some improvements to their buildings since rent control was enacted, they all indicated deferral of building improvements. Several said that their buildings required exterior painting, while others wanted to make other improvements. However, all the owners hesitated to make any of these major improvements because the owners perceived this as too costly given the level of their rents. Further, perceived difficulties in obtaining IRA adjustments, discussed below, contributed to decisions regarding capital improvements.

Property Owner Characteristics. All five property owners purchased the properties as an investment. Two of the owners are retired; they purchased rental property in the late 1950s or early 1960s as an investment that could provide an annuity at retirement.

Four out of five would be considered somewhat inexperienced real estate investors. None of these owners have any background in real estate finance or management and none of them have worked in occupations related to real estate. All five communicated a very strong pride of ownership (including one owner who had a photo album with numerous pictures of the building and the various improvements that have been made). Three of the owners are in their seventies. These older owners specifically expressed concern about their age as a factor in continuing to operate and maintain their buildings.

Two of the five owners live building being studied. A third owner lives in Berkeley but not in the case study building. The remaining two owners live in other East Bay communities. One of these owners works in Berkeley and the other's place of work was not disclosed.

While all five owners expressed concern over the situation for the tenants living in their buildings, the two owners who lived in their building had more of a personal relationship with their tenants. Both of these owners also had other family members living in their buildings as well.

Experiences With the Rent Board. Two of the five property owners had no contact with the rent board other than to register their units and follow the annual general adjustment process. However, even these two owners had strong feelings about the rent board. While they said that they were basically satisfied with the current financial return from their building, they did not like the lack of flexibility imposed on them by the rent control ordinance. One owner indicated that, given the fact that he owned his building free and clear, he was generally satisfied with his general return and saw no reason to increase rents via the IRA process. However, he was worried that if he should ever need or want to evict a tenant, he would be prevented from doing so. The other owner with no direct contact with the rent board expressed a general dislike for the board's bureaucracy. He was also very eager for the board to adopt a policy regarding historically low rents that would allow him to increase his rents.

Two other owners had applied for IRAs. The outcome of these petitions did not work out well for either owner. One owner said she applied for an IRA but became so frustrated with the process that she withdrew it. The second owner applied for an IRA on the basis of a number of claims. The hearing examiner granted some of the increases, did not allow others, and failed to render a clear decision on some aspects of the petition. The owner has now appealed this decision.

The fifth owner has not applied for an IRA for this particular property, but has applied for an IRA on another property he owns in Berkeley. His experience was also very negative. Overall he found the process to be expensive, burdensome, and very time consuming. He also said the process was very divisive. At the time he filed his initial petition all of his tenants were in support of the IRA. However, by the end of the process, the tenants were all on the other side and there were a lot of bad feelings.

The general perception of the five case study owners, as well as many other owners who were contacted but declined to participate in the study, is that the rent board does not fairly consider their interests. Property owners felt they were not always treated courteously, nor were they always given a full opportunity to state their case. While some of the frustration the property owners feel is with rent control itself, a great deal of their dissatisfaction focuses on the IRA process. Property owners find this process very time consuming and cumbersome. With regards to replacement of key items normally routine in real estate ownership (i.e. appliances and fixtures), the potential for a protracted IRA process is especially frustrating.

The results are often not satisfactory to the owners. Moreover, since they can not obtain the increases they feel are justified by normal real estate practice, the owners indicated a disinterest in undertaking building improvements. Also, the owner currently appealing the initial decision feels that the process permits the hearing examiners to make arbitrary decisions. For example, the owner indicated that the hearing examiner extended amortization periods as specified in the IRA procedures for certain capital improvements without stating the rationale for this decision.

Historically Low Rent Unit Tenant Profiles

One of the major concerns in considering possible policy changes related to historically low rents is related to the implications of possible rent increases for tenants living in those buildings. One way to examine this issue is to assess the demographic characteristics of tenants living in case study buildings, including their income and existing rent burden. This would allow BAE to look at the direct impact of rent increases on actual tenants.

Initially, all tenants living in case study buildings were contacted via the same cover letter and questionnaire used for the tenants survey. The tenants were not told that they were part of a case study, but merely that they were part of a small but important sample. This was done to ensure greater confidentially for the tenants and the property owners. Although this procedure yielded a relatively good response rate for the tenants survey, it was not as effective in eliciting responses from tenants in the case study buildings.

When the survey approach failed to generate an acceptable response rate, BAE used two other methods to get information about tenants in historically low rent units. First, the responses of households living in historically low rent units who participated in the tenants survey were compiled into a separate data base. Then, the five case study property owners were contacted and asked general questions about demographic characteristics of their tenants. While this information does not offer the precision of detailed data provided by the tenants in the case study buildings themselves, it does offer a qualitative description of these tenants which can then be compared to the historically low rent tenant data from the survey. The historically low rent tenant data can then be compared to the overall survey results to identify any differences and similarities.

The results presented below include a discussion of information collected from the tenants survey, the responses of tenants living in historically low rent units, and the qualitative information about tenants provided by landlords. Only the overall survey results are statistically reliable. There were too few responses from tenants living in historically low rent units to make any statistically reliable inferences about all tenants in the city living in historically low rent units. In addition, there are other statistical differences between the two data sets that make them not strictly comparable. However for purposes of this analysis, the two are compared to highlight some possible trends and areas of further consideration.

Household Type. The citywide survey results indicated that about one-half of the tenants in rent controlled units were single people living alone. In contrast, only 46 percent of historic low rent (HLR) respondents lived by themselves. The HLR respondents also had a higher proportion of families with children, including 14 single mothers with children, and more households of related adults other than parents and children than the survey sample as a whole. Another apparent difference between the survey sample and the HLR tenant respondents was the number of households comprised of unrelated adults other than couples. While this group represented almost 16 percent of the survey sample, it accounted for only 1 percent of the HLR households. Households in the case study units had a higher proportion of single people living alone than the HLR respondents, while the proportion of married couples without children was higher than for the overall sample or the HLR respondent group. In addition, the case study buildings had only one two-parent family and several single parent households.

Age of Respondents. Almost one-third of the HLR respondents were 55 years of age or older and only 3 percent were in the 18-24 age range. In contrast, only about 10 percent of the respondents from the overall sample were over 55 years of age, and 18 percent were in the 18-24 category. The case study units also had a high concentration of older people. Most of the married couples without children were in their 50's or older, and many of the single people were in their 40's or older. Although this age distribution suggests that the occupants of historically low rent units may be somewhat older than general population of people living in rent controlled units, this result may be somewhat skewed by the fact that historically low rent units in Submarket Area 3 were underrepresented among the HRL respondents.

Race or Ethnicity. The HLR respondents had a much higher proportion of blacks than the survey sample as a whole. In the survey sample blacks account for only about 11 percent while in the HLR respondent group they accounted for about one-half. Whites represented only 33 percent of the HLR respondents but in the entire sample whites represented slightly over 66 percent. Hispanics were about the same proportion in both groups. Blacks were also the largest racial group living in the case study units, followed by Hispanics. Only one white person was reported and the ethnicity of two tenants was undisclosed.

Length of Tenure. Tenants living in the HLR units appear to have generally lived in their current location longer than the overall survey population. Over one-third of the HLR respondents had moved into their unit in 1977 or before, while this was the case for only about 11 percent of the overall sample. The case study buildings also had several very long term tenants. However, the trend seemed to be more towards people who had been in their current unit for three to five years. It is interesting that several of the case study buildings seemed more stable than others; however, given the quality of the data, it is impossible to identify what factors contribute to the varied turnover rates. It is interesting to note that several tenants in case study buildings who had moved into their units relatively recently (within the last several years) were replacing people who had lived in the unit for 10 years or more. In several cased the previous tenant had died, in other cases the previous tenant had saved enough money to purchase a single family home. While the owners did

not specify where these people purchasing homes the general impression is that the homes were not in Berkeley.

Income. About 34 percent of the HLR respondent households earned less than $10,000 in 1987 while about 28 percent of the sample as a whole fell into this income category. Both groups of respondents also had about 21 percent of their respondents clustered in the $25,000 to $35,000 category, but the HLR group had fewer households in higher incomes categories. Because the tenants in the case study units did not provide any income information, it is difficult to compare them with the other two groups. However, property owners were asked about occupation of their tenants as a proxy for income. While this type of information can be deceptive, it still offers a rough qualitative assessment of the general income levels of these tenants. Not surprisingly, given the age distribution of these tenants, there were quite a few retired people. Several people were reported to be working in relatively low paying jobs including sales clerks, jobs in restaurant kitchens, or clerical positions. Others were probably doing somewhat better in terms of income because they worked in the construction trades or for the government. Only two people had what might be considered white collar jobs. In one case the property owner did not know the tenant's occupation. Again, while it is difficult to generalize from this information, it appears that the case study tenants also have lower incomes that those tenants in the survey sample as a whole.

Rent Burden. While there is no rent burden information available for the tenants in case study units, the HLR respondents do offer an interesting basis for comparison with the overall survey results. Almost 60 percent of the HLR respondents paid less than 20 percent of their income for rent as compared to about 40 percent for the total sample. Only 6 percent of the HLR respondents paid over 50 percent of their income for rent whereas over 14 percent of the respondents in the overall sample paid over 50 percent of their income for housing. This finding may indicate that while the HLR respondents appear to have lower incomes than the overall sample, they are also paying lower rents. The seemingly large proportion of people paying less than 20 percent of their income for rent may also show that there could be some room for adjusting rents upward without causing people to pay over 30 percent of their income for rent. A 30 percent or below rent burden is generally considered reasonable by federal and state standards. However, a much more extensive study would have to made of the HLR tenants' rent burden to provide statistically reliable data that could confirm this observation.

Table 1
Distribution of Rent-Controlled Houses and Apartments by Submarket Area

Count by Submarket Area

	Submarket Area					Citywide
	1	2	3	4	5	Total
Apartment	1,661	3,599	9,737	790	3,310	19,097
House	254	327	139	81	245	1,046
Total Units by Area	1,915	3,926	9,876	871	3,555	20,143

Distribution of Unit Types Within Areas

	Submarket Area					
	1	2	3	4	5	Citywide
Apartment	86.7%	91.7%	98.6%	90.7%	93.1%	94.8%
House	13.3%	8.3%	1.4%	9.3%	6.9%	5.2%
Percents Down	100%	100%	100%	100%	100%	100%

Distribution of Unit Types Between Areas

	Submarket Area					
	1	2	3	4	5	Citywide
Apartment	8.7%	18.8%	51.0%	4.1%	17.3%	100.0%
House	24.3%	31.3%	13.3%	7.7%	23.4%	100.0%
Percents Across	9.5%	19.5%	49.0%	4.3%	17.6%	100.0%

Source: Rent Stabilization Board Certified Rents Database & Bay Area Economics, 1988

Table 2

Distribution of Buildings Containing Registered Units by Size of Building

Number of Units in Building	Number of Buildings					
	Submarket Area					Citywide
	1	2	3	4	5	
1 *	273	311	154	87	252	1,077
2	110	277	170	86	207	850
3 to 4	133	333	352	111	383	1,312
5 to 9	87	144	288	51	234	804
10 to 24	28	58	232	8	46	372
25 to 49	3	11	63	0	3	80
50 and up	0	1	15	0	1	17
Total *	634	1,135	1,274	343	1,126	4,512

Number of Units in Building	Number of Buildings					
	Submarket Area					Citywide
	1	2	3	4	5	
1 *	43.1%	27.4%	12.1%	25.4%	22.4%	23.9%
2	17.4%	24.4%	13.3%	25.1%	18.4%	18.8%
3 to 4	21.0%	29.3%	27.6%	32.4%	34.0%	29.1%
5 to 9	13.7%	12.7%	22.6%	14.9%	20.8%	17.8%
10 to 24	4.4%	5.1%	18.2%	2.3%	4.1%	8.2%
25 to 49	0.5%	1.0%	4.9%	0.0%	0.3%	1.8%
50 and up	0.0%	0.1%	1.2%	0.0%	0.1%	0.4%
Percent Total	100%	100%	100%	100%	100%	100%

* Totals may not match other tables due to missing data regarding building size.

Source: Bay Area Economics, 1988.

Table 3
Distribution of Units within Submarket Areas by Building Size

Number of units in building	Number of Units					
	Submarket Area					Citywide
	1	2	3	4	5	
1 *	279	325	165	91	263	1,123
2	199	512	320	145	386	1,562
3 to 4	389	1,039	1,093	328	1,095	3,944
5 to 9	537	816	1,789	220	1,171	4,533
10 to 24	375	809	3,477	75	513	5,249
25 to 49	86	340	2,058	0	77	2,561
50 and up	0	26	942	0	24	992
Total by Area *	1,865	3,867	9,844	859	3,529	19,964

Number of units in building	Number of Units					
	Submarket Area					Citywide
	1	2	3	4	5	
1	15.0%	8.4%	1.7%	10.6%	7.5%	5.6%
2	10.7%	13.2%	3.3%	16.9%	10.9%	7.8%
3 to 4	20.9%	26.9%	11.1%	38.2%	31.0%	19.8%
5 to 9	28.8%	21.1%	18.2%	25.6%	33.2%	22.7%
10 to 24	20.1%	20.9%	35.3%	8.7%	14.5%	26.3%
25 to 49	4.6%	8.8%	20.9%	0.0%	2.2%	12.8%
50 and up	0.0%	0.7%	9.6%	0.0%	0.7%	5.0%
% Total by Area	100%	100%	100%	100%	100%	100%

* Totals may not match other tables due to missing data regarding building size.

Source: Bay Area Economics, 1988

Table 4
Number of Units by Number of Bedrooms
Apartments Only

Number of Bedrooms	Number of Units: Submarket Area 1	2	3	4	5	Citywide
0	115	146	1,117	31	192	1,601
1	621	1,490	3,922	316	1,261	7,610
2	514	1,109	2,200	277	1,102	5,202
3	123	157	306	37	177	800
4	34	19	57	1	28	139
5 or more	12	8	32	2	12	66
Unclassified	242	670	2,103	126	538	3,679
Total by Area	1,661	3,599	9,737	790	3,310	19,097

Number of Bedrooms	Distribution of Unit Types Within Areas: Submarket Area 1	2	3	4	5	Citywide
0	6.9%	4.1%	11.5%	3.9%	5.8%	8.4%
1	37.4%	41.4%	40.3%	40.0%	38.1%	39.8%
2	30.9%	30.8%	22.6%	35.1%	33.3%	27.2%
3	7.4%	4.4%	3.1%	4.7%	5.3%	4.2%
4	2.0%	0.5%	0.6%	0.1%	0.8%	0.7%
5 or more	0.7%	0.2%	0.3%	0.3%	0.4%	0.3%
Unclassified	14.6%	18.6%	21.6%	15.9%	16.3%	19.3%
% Total by Area	100%	100%	100%	100%	100%	100%

Number of Bedrooms	Distribution of Unit Types Between Areas: Submarket Area 1	2	3	4	5	Total by Bedrooms
0	7.2%	9.1%	69.8%	1.9%	12.0%	100.0%
1	8.2%	19.6%	51.5%	4.2%	16.6%	100.0%
2	9.9%	21.3%	42.3%	5.3%	21.2%	100.0%
3	15.4%	19.6%	38.3%	4.6%	22.1%	100.0%
4	24.5%	13.7%	41.0%	0.7%	20.1%	100.0%
5 or more	18.2%	12.1%	48.5%	3.0%	18.2%	100.0%
Unclassified	6.6%	18.2%	57.2%	3.4%	14.6%	100.0%
Percent of All Units by Area	8.7%	18.8%	51.0%	4.1%	17.3%	100.0%

Note: Includes units with no 1980 certified rent data availalable.
Source: Rent Stabilization Board Certified Rents Database & Bay Area Economics, 1988

Table 5
Mean 1980 Certified Rent by Number of Bedrooms by Submarket Area
Apartments Only

Number of Bedrooms	Mean Rent: Submarket Area 1	2	3	4	5	Citywide Total
0	$194	$175	$187	$163	$149	$182
1	$248	$211	$243	$179	$201	$228
2	$344	$287	$342	$244	$257	$307
3	$521	$408	$451	$350	$388	$435
4	$733	$458	$634	$124	$500	$600
5 or more	$816	$766	$834	$425	$565	$766
Unclassified	$264	$220	$226	$197	$221	$226
Area Mean Rent, All Units	$312	$247	$266	$214	$234	$259

Numbers of Units Counted for Above Rents

Number of Bedrooms	Number of Units: Submarket Area 1	2	3	4	5	Citywide
0	98	133	1,052	31	173	1,487
1	548	1,273	3,627	276	1,125	6,849
2	428	980	2,023	256	1,008	4,695
3	113	140	270	35	157	715
4	30	19	53	1	26	129
5 or more	12	6	28	2	9	57
Unclassified	200	581	1,811	114	467	3,173
Unit Total by Area	1,429	3,132	8,864	715	2,965	17,105

Note: Counts of number of units do not match other tables due to exclusion of units with no data for 1980 rent.

Source: Rent Stabilization Board Certified Rents Database & Bay Area Economics, 1988

Table 6
1980 Threshold Rents for Breakeven Method *

Unit Size by Number of Bedrooms	Threshold Rent
None (Studio)	$121
1	$151
2	$202
3	$286
4	$393

* Based on operating expense equal to 80% of average operating expenses.

Source: Bay Area Economics, 1988

Table 7
1980 Threshold Rents for 5 Percent Method

Unit Size by Number of Bedrooms	Threshold Rent					
	Submarket Area					Citywide
	1	2	3	4	5	
None (Studio)	$121	$102	$112	$84	$71	$100
1	$150	$125	$154	$90	$100	$126
2	$192	$152	$200	$120	$137	$158
3	$206	$212	$189	$100	$137	$175
4	$297	n.a.	$181	n.a.	$157	$155
Average by Area	$150	$134	$149	$100	$100	$130

Source: Bay Area Economics, 1988

Table 8

Number of Units Below 1980 Breakeven Rent Threshold by Number of Bedrooms and Submarket Area

Number of Bedrooms	Number of Units						Threshold Rent
	Submarket Area					Citywide	
	1	2	3	4	5		
None (Studio)	4	15	94	9	58	180	$121
1	36	211	170	92	285	794	$151
2	27	229	102	115	315	788	$202
3	14	35	47	14	50	160	$286
4	2	8	11	1	6	28	$393
Total *	83	498	424	231	714	1,950	

Distribution of Number of Units Below 1980 Breakeven Rent Threshold by Number of Bedrooms and Submarket Area

Number of Bedrooms	Percent of Units					
	Submarket Area					Citywide
	1	2	3	4	5	
None (Studio)	4.8%	3.0%	22.2%	3.9%	8.1%	9.2%
1	43.4%	42.4%	40.1%	39.8%	39.9%	40.7%
2	32.5%	46.0%	24.1%	49.8%	44.1%	40.4%
3	16.9%	7.0%	11.1%	6.1%	7.0%	8.2%
4	2.4%	1.6%	2.6%	0.4%	0.8%	1.4%
Total	100%	100%	100%	100%	100%	100%

Percent of Total Rent Controlled Apartment Units Which Are Units Below the Breakeven Threshhold by Number of Bedrooms and Submarket Area

Number of Bedrooms	Percent of Units						Threshold Rent
	Submarket Area					Citywide	
	1	2	3	4	5		
None (Studio)	3.5%	10.3%	8.4%	29.0%	30.2%	11.2%	$121
1	5.8%	14.2%	4.3%	29.1%	22.6%	10.4%	$151
2	5.3%	20.6%	4.6%	41.5%	28.6%	15.1%	$202
3	11.4%	22.3%	15.4%	37.8%	28.2%	20.0%	$286
4 **	5.9%	42.1%	19.3%	100.0%	21.4%	20.1%	$393
Total	5.0%	13.8%	4.4%	29.2%	21.6%	10.2%	

* Totals may differ from other tables due to missing data.

** There is only one 4 bedroom unit in area 4.

Source: Bay Area Economics, 1988

Table 9

Number of Units Below 1980 5 Percent Rent Threshold by Number of Bedrooms and Submarket Area

Number of Bedrooms	Number of Units					
	Submarket Area					Citywide
	1	2	3	4	5	
None (Studio)	4	6	52	1	8	74
1	27	63	181	13	56	342
2	21	49	101	12	50	234
3	5	7	13	1	7	35
4	1	0	1	0	1	6
Total *	58	125	348	27	122	691

Distribution by Submarket Area of Number of Units Below 1980 5 Percent Rent Threshold by Number of Bedrooms

Number of Bedrooms	Percent of Units					
	Submarket Area					Citywide
	1	2	3	4	5	
None (Studio)	6.9%	4.8%	14.9%	3.7%	6.6%	10.7%
1	46.6%	50.4%	52.0%	48.1%	45.9%	49.5%
2	36.2%	39.2%	29.0%	44.4%	41.0%	33.9%
3	8.6%	5.6%	3.7%	3.7%	5.7%	5.1%
4	1.7%	0.0%	0.3%	0.0%	0.8%	0.9%
% Total by Area	100%	100%	100%	100%	100%	100%

* Totals may differ from other tables due to missing data.

Source: Bay Area Economics, 1988

Table 10
Count of Units Below 1980 Breakeven Threshold Rent by Building Size and Submarket Area

Number of units in building	Number of Units: Submarket Area 1	2	3	4	5	Citywide
1	2	10	2	7	15	36
2	12	72	30	38	78	230
3 to 4	19	129	60	74	205	487
5 to 9	41	125	120	89	331	706
10 to 24	9	69	163	22	82	345
25 and up	0	87	49	0	0	136
Total *	83	492	424	230	711	1,940

Distribution of Units Below 1980 Breakeven Threshold Rent by Building Size and Submarket Area

Number of units in building	Percent of Units: Submarket Area 1	2	3	4	5	Citywide
1	2.4%	2.0%	0.5%	3.0%	2.1%	1.9%
2	14.5%	14.6%	7.1%	16.5%	11.0%	11.9%
3 to 4	22.9%	26.2%	14.2%	32.2%	28.8%	25.1%
5 to 9	49.4%	25.4%	28.3%	38.7%	46.6%	36.4%
10 to 24	10.8%	14.0%	38.4%	9.6%	11.5%	17.8%
25 and up	0.0%	17.7%	11.6%	0.0%	0.0%	7.0%
% Total by Area	100%	100%	100%	100%	100%	100%

* Totals differ from other tables due to missing data regarding building size.

Source: Bay Area Economics, 1988

Table 11

Number of Buildings Containing One or More Units Below 1980 Breakeven Threshold Rent by Size of Building and Submarket Area

Number of Units in Building	Number of Buildings: Submarket Area 1	2	3	4	5	Citywide
1	2	10	2	7	14	35
2	8	49	22	30	53	162
3 to 4	12	62	37	33	98	242
5 to 9	17	42	47	30	99	235
10 to 24	4	9	35	4	17	69
25 and up	0	3	12	0	0	15
Total	43	175	155	104	281	758

Percentage Distribution of Buildings Containing One or More Units Below 1980 Breakeven Threshold Rent by Size of Building

Number of Units in Building	Percent of Buildings: Submarket Area 1	2	3	4	5	Citywide
1	4.7%	5.7%	1.3%	6.7%	5.0%	4.6%
2	18.6%	28.0%	14.2%	28.8%	18.9%	21.4%
3 to 4	27.9%	35.4%	23.9%	31.7%	34.9%	31.9%
5 to 9	39.5%	24.0%	30.3%	28.8%	35.2%	31.0%
10 to 24	9.3%	5.1%	22.6%	3.8%	6.0%	9.1%
25 and up	0.0%	1.7%	7.7%	0.0%	0.0%	2.0%
Total	100%	100%	100%	100%	100%	100%

Percent of Total Buildings Containing Rent Controlled Units Which Are Units Below the 1980 Breakeven Threshhold by Number of Bedrooms and Submarket Area

Number of Units in Building	Percent of Units: Submarket Area 1	2	3	4	5	Citywide
1	0.7%	3.2%	1.3%	8.0%	5.6%	3.2%
2	7.3%	17.7%	12.9%	34.9%	25.6%	19.1%
3 to 4	9.0%	18.6%	10.5%	29.7%	25.6%	18.4%
5 to 9	19.5%	29.2%	16.3%	58.8%	42.3%	29.2%
10 to 24	14.3%	15.5%	15.1%	50.0%	37.0%	18.5%
25 and up	0.0%	25.0%	15.4%	0.0%	0.0%	15.5%
Total	7%	15%	12%	30%	25%	17%

* Totals may differ from other tables due to missing data.

Source: Bay Area Economics, 1988

Table 12

Distribution of Buildings Containing Units Below 1980 Breakeven Threshold Rent by Percentage of Units in Building Below Threshold Rent

Percent of Units Below Threshold	Submarket Area 1	2	3	4	5	Citywide
Less than 25%	10	18	50	9	31	118
25% to 49.9%	13	33	45	21	58	170
50% to 74.9%	9	61	28	36	93	227
75% to 100%	11	61	32	37	96	237
Total *	43	173	155	103	278	752

* Totals differ from other tables due to missing data.

Source: Bay Area Economics, 1988